

## Chapter 87

# Integration of Sustainability and Management Control Systems: A Challenge for Family SMEs

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### **ABSTRACT**

*In order to support family SMEs in developing more responsible, innovative, and competitive business models, this chapter proposes to study the role and interaction between sustainability control systems (SCSs) and management control systems (MCSs). The chapter will examine management control and family business literature with the purpose of discussing the following research issues: What are the interactions between different forms of social responsibility in family SMEs? How can we transfer the family firms' attitude to social responsibility in a sustainable business model? What are main elements of a sustainable business model that can leverage on family firms business model? The conceptual framework will be defined through literature review: the main aim is to convey the meaning of sustainability and investigating the integration between SCSs and MCSs in family SMEs.*

### **INTRODUCTION**

The current economic scenario, because of the financial crisis, shows a decrease of wealth creation and weak business confidence. Many European countries have to face social problems like unemployment, underemployment, while poverty is increasing. In this context, the need to promote economic development consistent with social and environmental concerns has drastically emerged.

There is an increasing opportunity to assess value creation from a sustainability standpoint and with a social responsibility approach.

Since Small and Medium businesses (SMEs) contribute significantly to the European GDP and employment, the discussion of sustainability in all of its features (economical, ecological and societal) has revealed already important issue for SMEs that want to be in business for years to come.

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## ***Integration of Sustainability and Management Control Systems***

Companies are expected, more than before, to account for many aspects of their performance – not just financial or economic results – but also social and environmental performance (Farneti et al., 2017; Cramer, 2002). Schaltegger et al. (2006) define this paradigm as “Sustainability Performance Management”.

In the new context, also the concept of value creation has to be changed from value creation for shareholders to value creation for all stakeholders. Value creation also embed sustainable value (based on a triple bottom line approach), and social responsibility.

According to Karatzoglou (2006), the pursuit of sustainability in business practises has necessitated the integrated management and assessment of corporate economic, environmental and social performances.

Although sustainability has been discussed in management control literature to highlight the need of Sustainability Control Systems (SCSs), little is known about the mode of integration between sustainability and traditional Management Control Systems (MCSs).

Since Small and Medium businesses (SMEs) contribute significantly to the European GDP and employment, the discussion of sustainability in all of its features (economical, ecological and societal) has revealed already important issue for SMEs that want to be in business for years to come.

Sustainability has long been recognized as central issues by EU institutions and a way for fundamental shifts in business practice and models, that can drive progress, strive for innovation and unleash business value. Since 2001, the EU institutions have highlighted firms’ responsibility in managing the impacts of their actions on society.

In this situation, a new role of both EU institutions and European firms has drastically emerged that asks for promoting economic development consistent with social and environmental concerns.

In the EU environment, SMEs (especially family ones) are recognized to adopt business models more sensitive to societal and ecological issues and stakeholder needs. However, they are characterized also by weaknesses, which come to light especially during growth processes.

Although many organizations are devoted to sustainability in their external reporting, there is a scarce attention to the role management control systems can play in supporting sustainability within organizations (Durden, 2008; Herzig et al., 2012).

Even if scholars (Burgelman, 1991) argue that Sustainability Control Systems (SCSs) can contribute to an effective integration of sustainability within strategy, little is known about the relationship between Managerial Control Systems (MCSs) and SCSs.

In order to support family SMEs in developing more responsible, innovative and competitive business models, this chapter proposes to study the relationship between SCSs and MCSs. More specifically, the chapter will analyze how systems together can facilitate the emergence of sustainability at a strategic level and ultimately the integration of sustainability and strategy.

## **BACKGROUND**

The end of 20<sup>th</sup> century has seen an important increase in scientific research on sustainable thinking: the term “sustainable” has become a buzzword which as been interpreted in very different ways (like “green”, “eco-efficient”, “ethical” and “socially responsible”) (Carrol, 1999; Bieker, 2002).

For many years, the contribution of firms towards sustainability has been called Corporate Social Responsibility (CSR) (European Commission, 2002).

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